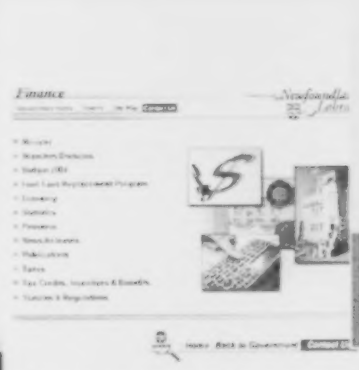
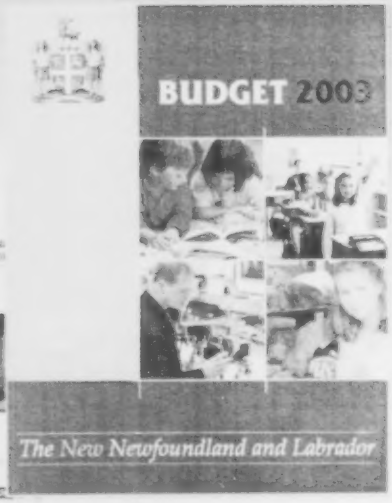
The Department of Finance
Annual Report





GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

Department of Finance

Year Ended 31 March, 2004

106-00155/

Table of Contents

Letter of Transmittal 1

Message from the Minister 3

Departmental Overview 5
- Organizational Structure 8
- Lines of Business 8
- Legislation Stewardship 10
- Budgetary Allocation 11
- Human Resources 13

Shared Commitments 15

Highlights and Accomplishments 19
- Legislation Update 21
- Federal-Provincial Fiscal Arrangements 21
- Budget Preparation and Consultations 22
- Incentive and Benefit Programs 22
- Credit Ratings 23
- Economic Services 23
- Demographic Projection Services 24
- Statistical Services 24
- Internet Services 24

Strategic Issues and Outcomes 25

Contact Information 31

Department's Publications 35

Financial Statements 39

Transmittal Letter

Mr. Speaker,

In accordance with government's commitment to greater accountability, I hereby table the 2003-04 Annual Report for the Department of Finance. This report was prepared under my direction and addresses the department's activities and outcomes from 1 April, 2003 to 31 March, 2004.

Loyola Sullivan
Minister of Finance

Message from the Minister

2003-04 has been a productive year for the Department of Finance. The department was successful in having the Legislature enact 4 pieces of legislation which addressed the Blue Book's commitment to reduce taxes on low income earners, provide additional tax relief for this province's seniors, and stimulate business by increasing the exemption threshold for payroll tax. Equally important, the Federal-Provincial Equalization Program was renewed for a further five years effective from 1 April, 2004.

The PricewaterhouseCoopers Report acknowledged that the province's fiscal situation cannot be corrected by revenue growth alone, and government has acknowledged that significant changes will need to be made to the major Federal-Provincial funding arrangements relating to health, the Atlantic Accord, and equalization, if the province is to continue to grow and prosper. In that regard, a major focus of the department's activities in 2003-04 was to develop provincial negotiating strategies to be debated at the various Federal-Provincial meetings to be held throughout 2004-05. It is important to realize that Federal Source Revenues still comprise over 30 per cent of total provincial revenue. Consequently, the success of the department at these meetings will be of crucial importance in setting the course for the future stability of the province's fiscal position.

I wish to thank Mr. Phil Wall, Deputy Minister, who retired in December, 2003. Mr. Wall, a professional and dedicated public servant with over 20 years in senior government positions, was invaluable during the Transition period. His advice and counsel will be sorely missed.

Finally, may I thank the staff of the department for their professionalism, dedication and support during this past year. Their continued support provides a clear demonstration of their commitment to the province and pride in the work they do. This continued support contributes greatly to the department's success.

Loyola Sullivan
Minister of Finance

Departmental Overview

Vision

It is the vision of the Department of Finance to ensure sufficient financial and economic resources are available to promote prosperity and well-being among the people of the province of Newfoundland and Labrador.

Mission

The mission of the Department of Finance is to provide the necessary financial and economic resources to effectively support government programs and policy development within a responsible fiscal framework, while ensuring the tax system is fair to all taxpayers.

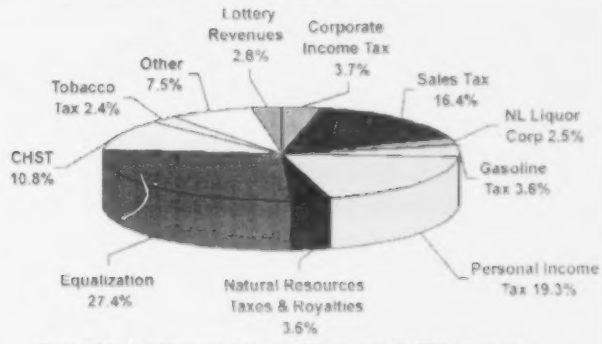
The Department of Finance
Staff Development Activities Fall 2003

The Department of Finance, created by a separate Order-in-Council under the Executive Council Act, is one of two agencies responsible for the provision of financial services necessary to support all government activities and programs. The department is responsible for the following:

- taxation policy analysis;
- Current Account Revenue forecasting and monitoring;
- federal-provincial fiscal arrangements;
- financial analysis of the impact of specific projects on the economy;
- the borrowing, cash management and debt servicing programs of government including its municipal lending agency, Newfoundland and Labrador Municipal Financing Corporation;
- the administration of government's internal pension programs;
- the collection and administration of all provincial tax programs; and
- analysis of the provincial economy including statistical collection.

Treasury Board, the other agency within government responsible for financial services, is responsible for the financial operations of government such as expenditure management, planning, and collective bargaining. The department has stewardship over substantially all of the Current Account Revenue generated by the province which, for the fiscal year ended 31 March, 2004, amounted to $3.8 billion broken down as follows:

Current Account Revenues of the Province

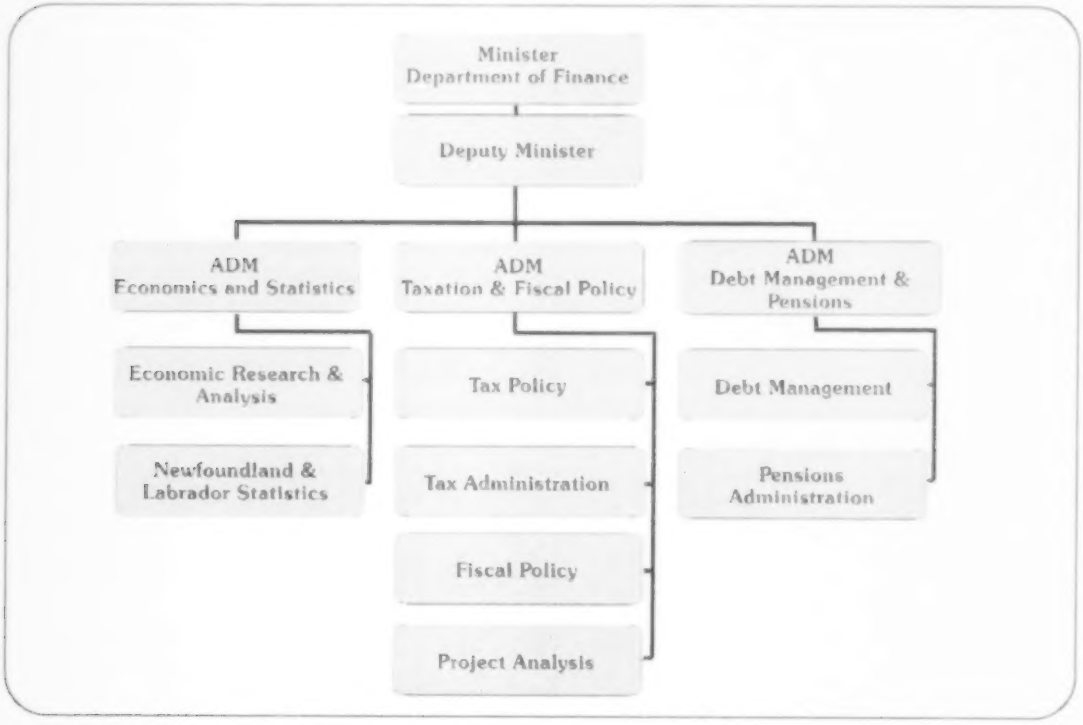


Total 2003-04 Current Account Revenues $3,791.84 million

Source: Public Accounts 2004

Organizational Structure

The Department of Finance has three separate branches: Debt Management and Pensions Administration; Taxation and Fiscal Policy; and Economics and Statistics. Each is responsible to an Assistant Deputy Minister, reporting to the Deputy Minister of Finance who, in turn, is responsible to the Minister. In addition, the Ministry is responsible for several boards, agencies and commissions including Newfoundland and Labrador Municipal Financing Corporation, Newfoundland and Labrador Industrial Development Corporation, Newfoundland and Labrador Liquor Corporation, Atlantic Lottery Corporation, Newfoundland Government Fund Limited and the C.A. Pippy Park Commission. The chart below outlines the organizational structure of the Department of Finance.



Lines of Business

Debt Management and Pensions Administration Branch

Debt Management and Financial Assistance

Administration of the province's borrowing and debt servicing programs, including cash management and the investment of trusteed assets, and the operation of government's senior financial assistance programs, involving loan guarantees, direct loans and equity investments.

Pensions Administration

Administration of government's internal pension program, including the delivery and communication of benefit services and the investment of related trusteed assets.

Taxation and Fiscal Policy Branch

Fiscal Policy

Negotiation and administration of all programs under federal-provincial fiscal arrangements; forecasting and analysis of provincial revenues; coordination of the annual budget speech and pre-budget consultation process; and analytical support for the development of government's fiscal policy.

Project Analysis

Analysis of the financial and economic impact of specific projects to assist government in policy development.

Tax Policy

Analysis and assessment of the implications of changes to existing provincial taxation policies, options for taxation reform and new revenue proposals, and the negotiation and monitoring of federal-provincial tax agreements.

Tax Administration

Administration and collection of various provincial taxes and incentive programs including: tobacco tax, gasoline tax, health and post secondary education tax, mining and mineral rights tax, insurance companies tax, utilities tax, financial corporations capital tax, retail sales tax, the direct equity tax credit program and the fuel oil tank replacement and rebate programs.

Economics and Statistics Branch

Economic Research and Analysis

Analysis and forecasting of the macroeconomic environment; provision of specific macroeconomic analysis and studies related to policy and project impact assessments. Responsible for both the Newfoundland and Labrador Econometric and Input/Output Models, as well as, the Population Projection Model and demographic analysis. Also responsible for the publication of the budget document, *The Economy*.

Newfoundland and Labrador Statistics

Statistical and analytical services which include the development of specific provincial data and other unique information necessary for government's policy development and analysis. Government's central source for data collection and information resources produced by Statistics Canada.

Legislation Stewardship

The department is responsible for 32 pieces of legislation as follows:

C.A. Pippy Park Commission
- *Pippy Park Commission Act*

Debt Management Division
- *Industrial Development Corporation Act*
- *Municipal Financing Corporation Act*
- *The Loan Act*
- *The Loan and Guarantee Act, 1957*
- *The Local Authority Guarantee Act, 1957*
- *Financial Administration Act (Part IV-Public Debt)*
- *The Loan (Canada Pension Plan Investment Fund) Act*

Newfoundland and Labrador Statistics Agency
- *Statistics Agency Act*

Newfoundland Liquor Corporation
- *Liquor Corporation Act*
- *Liquor Control Act*

Pensions Administration Division
- *Government Money Purchase Pension Plan Act*
- *Members of The House of Assembly Pensions Act*
- *Pensions Funding Act*
- *Public Service Pensions Act, 1991*
- *Teachers Pensions Act*
- *Uniformed Services Pensions Act*
- *The Portability of Pensions Act*

Tax Administration Division
- *Financial Corporations Capital Tax Act*
- *Gasoline Tax Act*
- *Health and Post-Secondary Education Tax Act*
- *Horse Racing Regulation and Tax Act*
- *Insurance Companies Tax Act*
- *Mining and Mineral Rights Tax Act*
- *Retail Sales Tax Act*
- *School Tax Authorities Winding Up Act*
- *Tax Agreement Act*
- *Taxation of Utilities and Cable Television Companies Act*
- *Tobacco Tax Act*

Tax Policy Division
- *Income Tax Act*
- *Lotteries Act*
- *Offshore Area Corporate Income Tax Act*

Budgetary Allocation

The financial activity for the Department of Finance for the year ended 31 March, 2004 showed gross expenditures of $52.3 million, offset by related revenue of $37.5 million. This net expenditure of $14.8 million is outlined in the following table and is compared to the department's original budget tabled in the House of Assembly in March 2003.

TABLE 1

Department of Finance
Departmental Budget
For the year ending 31 March, 2004

Expenditures	Budget $	Actual $
Operating Salaries	6,346,200	6,329,235
General Operating	1,066,200	846,007
Professional Services	715,800	182,429
Grants, Allowances and Assistance (see Table 2)	1,410,000	668,728
Information Technology	1,066,100	563,953
Government Personnel Costs (see Table 3)	90,022,400	41,436,535
Pensions Administration	2,418,900	2,301,434
Gross Expenditures	**103,045,600**	**52,328,321**
Related Revenue (see Table 4)	(37,401,600)	(37,533,867)
Net Expenditures	**65,644,000**	**14,794,454**

Source: 2004 Public Accounts

Included in the department's statement of expenditures and related revenues are operating grants to the C.A. Pippy Park Commission and special assistance related to the government's fuel oil tank replacement program. The following table compares the actual expenditure with the original budget estimates.

TABLE 2

Department of Finance
Grants, Allowances and Assistance Budget
For the year ending 31 March, 2004

	Budget $	Actual $
Allowances for the Fuel Oil Tank Replacement Program	1,000,000	265,728
Operating Grant to Pippy Park Commission	400,000	400,000
Other	10,000	3,000
Total Grants, Allowances and Assistance	**1,410,000**	**668,728**

Source: 2004 Public Accounts

As well as the operating expenditures of the department, all costs relating to universal employee benefit programs paid by government as the employer, for its employees, are centralized as government personnel costs in the Department of Finance. These include Employment Insurance (EI), the Canada Pension Plan (CPP), and group health benefits. Also, payments relating to pay equity arrangements and various salary anomalies for all government employees have been centralized in the Department of Finance.

TABLE 3

Department of Finance
Government Personnel Costs Budget
For the year ending 31 March, 2004

	Budget $	Actual $
Salaries	46,256,300	2,229
Employee Benefits:	35,274,300	34,139,628
EI	7,345,800	7,150,957
CPP	12,259,000	12,038,926
Group Medical	14,367,400	13,471,647
Group Life	1,282,100	1,478,098
Health and Post Secondary Employment Tax (Payroll Tax)	7,000,000	7,294,678
Other	1,491,800	0
Total Expenditures	**90,022,400**	**41,436,535**

Source: 2004 Public Accounts

In addition to recovering all costs related to administering government's pensions program, the department collects revenues from Crown Agencies, primarily Newfoundland and Labrador Hydro which paid $34.2 million in dividends during the 2003-04 fiscal year.

TABLE 4

Department of Finance
Related Revenue Budget
For the year ending 31 March, 2004

	Budget $	Actual $
Cost Recoveries:	4,396,600	3,101,914
Pensions Administration	2,418,900	2,078,198
Debt Management	321,500	312,901
Economics and Statistics	1,656,200	710,815
Dividends of Newfoundland and Labrador Hydro	32,800,000	34,180,783
Other	205,000	251,170
Total	**37,401,600**	**37,533,867**

Source: 2004 Public Accounts

Human Resources

The department's staff has a wide and varied knowledge base accumulated through a combination of education and experience. Many of the professional and technical positions require considerable "on the job" training to learn the specific requirements and processes unique to their positions.

As of 1 April, 2003 the department had 157 employees which declined to 154 employees at 31 March, 2004, including the Executive and three branches. Of this number 26 employees are anticipated to retire in the next four years. As identified in the 2002 departmental Human Resources Plan, the department has an aging workforce. A strategic approach is required to arrange for the orderly replacement of retiring employees to ensure a significant amount of the corporate memory will not be lost. The following table outlines the age structure of the department's staff complement at 31 March, 2004:

Shared Commitments

The department works closely with numerous organizations and associations

Some of the most significant partnerships and client initiatives in 2003-04 include:

Cash Management and Pensions

While Treasury Board is responsible for government's budgeting process, Public Accounts, and all matters related to collective bargaining within the public service, the Department of Finance is responsible for the province's cash management program, capital market borrowing activities and the administration of the government pension program. The department provides all necessary advice and direction to assist Treasury Board in its development of the annual budgets and formulating collective bargaining positions relating to government's pension program.

Economic Forecast Preparation

The department works closely with several government departments to obtain information critical to the provincial economic forecast. These include the Departments of Fisheries and Aquaculture (e.g., information on fish landings); Natural Resources (e.g., newsprint outlook, oil and mineral production and employment); and Tourism, Culture and Recreation (e.g., tourism expectations). The same departments are also called upon for information and consultation during the preparation of the budget publication, *The Economy* and the mid-year report, *The Economic Review*. In addition to consulting with government officials during the preparation of its economic forecasts, the department seeks the opinions of other industry experts. Some examples include: the Conference Board of Canada (e.g., exchange rates and energy prices); major commercial banks; Canada Mortgage and Housing Corporation; and the Canadian Manufacturers and Exporters, Newfoundland and Labrador.

Fiscal Arrangements

While the department has direct responsibility for administering tax programs and federal-provincial transfer arrangements, there is ongoing liaison with the Intergovernmental Affairs Secretariat on various federal-provincial issues, particularly in preparation for the Annual Premiers' Conferences, First Minister's meetings and other similar events. The development of provincial tax policy can also involve most government departments especially those involved in resource management with responsibility for large projects such as Voisey's Bay and offshore oil. In addition, there is regular interaction with Treasury Board as revenue estimates are prepared and monitored by the Department of Finance as part of the overall budget process. Finally, both organizations are involved in the pre-budget consultations and preparations for the annual budget speech.

Newfoundland and Labrador Production Accounts

Extensive work was carried out with Memorial University, Statistics Canada and the Department of Innovation, Trade and Rural Development to develop the Production Accounts. The work will result in data and intelligence relating to the productivity and competitiveness of Newfoundland and Labrador industries, regions, and the province as a whole as compared to other industries and provinces. The information is an important "building block" to support business and economic development in Newfoundland and Labrador. The data will be available in the Production Accounts component of the Community Accounts, through the Department of Innovation, Trade and Rural Development and will be an input to support provincial development policy.

Newfoundland Survey of Employers and Labour Activity Surveys

The department worked closely with the Departments of Innovation, Trade and Rural Development and Human Resources, Labour and Employment and Memorial University to develop and implement a Survey of Employers in Newfoundland and Labrador and the Newfoundland and Labrador Labour Activity Survey. These organizations provided extensive input and made financial contributions to the initiatives. The information that has been collected is key to meeting the information requirements of government, business developers, and citizens. The data, some of which will be provided in the Community Accounts, will provide significant new analytical capacity to support current policy initiatives.

Highlights and Accomplishments

The department discusses a number of achievements during the year

The Community Accounts' team was the recipient of the 2003 National IPAC (The Institute of Public Administration of Canada) Award for Innovative Management

The Tax Administration Division implemented electronic filing of provincial tax returns and payments for the majority of its tax programs

Legislation Update

The following bills were introduced before the House of Assembly and subsequently given Royal Assent during 2003-04.

Tobacco Tax Act

- To increase tobacco tax from 13.5 to 15.0 cents per cigarette, and from 11.0 to 15.0 cents per gram of loose tobacco.

Health and Post Secondary Education Tax Act

- To revise the exemption threshold provisions such that employers with payroll between $500,000 and $600,000 are removed from the tax rolls. For employers with payrolls between $600,000 and $700,000 the exemption threshold will be phased down from $600,000 to $500,000.

Income Tax Act

Personal Income Tax

- To increase the Newfoundland and Labrador Seniors' Benefit to $350 per year per eligible single senior and $700 per year for eligible married seniors.
- To increase the provincial non-refundable credit for persons with disabilities to $5,000 and to introduce a new disability supplement of $2,353 for people under 18 years of age.
- To implement the Newfoundland and Labrador Student Loan Tax Credit.

Corporate Income Tax

- To increase the small business corporate income tax threshold to $225,000.
- To introduce a new corporate income tax holiday for new small business start-ups in designated growth sectors of the economy.
- To provide that the manufacturing and processing tax credit would only apply to corporations actually carrying on manufacturing or processing in the province.

Newfoundland and Labrador Child Benefit Regulations

- To increase the benefit amount for the first child from $204 to $216.

Federal-Provincial Fiscal Arrangements

The Equalization program is reviewed and updated on a five year cycle through a formal process that involves provinces, territories and the federal government. The most recent five year renewal process came to its conclusion in 2003-04, with a package of revisions and enhancements to the program brought forward and enacted by the federal government to have effect from April 1, 2004.

Budget Preparation and Consultations

As part of the 2004 budget consultation process, a series of roundtable discussions were organized by the department. Roundtable discussions were held in eight communities throughout the province including; St. John's, Carbonear, Gander, Grand Falls-Windsor, Stephenville, Corner Brook, Labrador City, Happy Valley-Goose Bay, and Marystown. The strong turnout at each public session indicated the high level of public interest in the budget planning process. Additionally, the department received numerous written briefs, e-mails, faxes and telephone calls from residents offering their suggestions on budget priorities. This budget was tabled in March, 2004.

Incentive and Benefit Programs

Corporate Income Tax

Corporate Income Tax Holiday

In the 2003 budget a new corporate income tax holiday was announced for new small business start-ups over the next three years in designated growth sectors of the economy. This includes a three year tax holiday for eligible businesses located in the Northeast Avalon and a five year tax holiday for eligible businesses outside the Northeast area.

Small Business Deduction Threshold

In the 2003 budget, the department announced that beginning in 2003, the small business deduction limit would be increased over the next four years, in increments of $25,000 per year, until it reaches $300,000. Consequently, the small business deduction limit will be $225,000 in 2003, $250,000 in 2004, $275,000 in 2005, and $300,000 in 2006 and each year thereafter.

Venture Capital

Direct Equity Tax Credit

The Direct Equity Tax Credit Program was designed to encourage investment in new or expanding small businesses, so as to create new jobs and diversify the economy. The program has been successful in raising new capital from individuals. Effective April 1, 2004, the Direct Equity Tax Credit Program was expanded to include investments from arm's-length corporations. These corporations will be permitted to invest in eligible businesses and avail of the tax credit similar to individuals. This will assist in providing greater access to capital for eligible small businesses. Under the Direct Equity Tax Credit Program, an eligible investor who purchases new shares in a qualifying business is entitled to a tax credit of 35 per cent of investment, if the qualifying activities take place outside the Northeast Avalon, and a rate of 20 per cent where the qualifying activities take place within the Northeast Avalon. Qualifying activities are targeted at growth areas of the economy.

Newfoundland and Labrador Seniors' Benefit

An additional $1.1 million was provided in the 2003 budget to enhance the Newfoundland and Labrador Seniors' Benefit program, bringing the total amount paid to our seniors to $7.7 million annually. Benefit

amounts for 2003 were increased to $350 per year for eligible single seniors and $700 per year for eligible married seniors.

Disability Credit and Disability Supplement

Beginning in the 2003 taxation year, the provincial non-refundable credit for persons with disabilities was increased from $4,233 to $5,000 and a new disability supplement of $2,353 was introduced for people under 18 years of age. These measures represent $1 million in tax savings for persons with disabilities in Newfoundland and Labrador. This is a significant step in lowering the tax burden for the persons with disabilities, who have additional medical, housing and transportation needs and therefore greater cost of living requirements.

Newfoundland and Labrador Child Benefit

Effective July 1, 2003, the annual benefit amount for the first child was increased to $216. Families with income below $17,397 receive the full benefit, while families with income between $17,397 and $22,397 receive a partial benefit. The benefit is completely phased out when income exceeds $22,397.

Credit Ratings

Annually, the Department of Finance meets with the three rating agencies which assess the credit worthiness of the province. These include two international firms: Standard & Poor's and Moody's Investors Service; and one Canadian firm, Dominion Bond Rating Service.

These meetings, involving senior officials of government, are part of the process whereby the rating agencies undertake a comprehensive review of the provincial economy and fiscal position in order to determine the province's credit rating. Subsequently, the agencies issue reports highlighting this fiscal review and assign a credit ranking to the province. These ratings are followed closely by the investment community, senior financial institutions and the province's underwriters which are involved in purchasing and distributing debenture issues of the province and those guaranteed debentures of Crown corporations—Newfoundland and Labrador Hydro and the Newfoundland and Labrador Municipal Financing Corporation.

Following their fiscal 2003-04 review process, the three rating agencies confirmed the province's existing ratings. These are: Standard & Poor's "A-"; Moody's Investors Service "A3"; and DBRS "BBB".

Economic Services

Economic services were provided to a broad clientele in 2003-04 including provincial government departments, municipalities, businesses, associations, students, and federal agencies. In addition to the annual publications *The Economy* and *The Economic Review*, the department also prepared an economic forecast for 2004 for the City of St. John's. Considerable work and support was also given to *The Royal Commission on Renewing and Strengthening Our Place in Canada*. The department continues to provide empirical data and analysis to the Department of Innovation, Trade and Rural Development to support its Productivity and

Competitiveness Initiative. At the request of Community Resources Services, the department also carried out work estimating the economic impact of the oil industry on the provincial economy.

Demographic Projection Services

The department strived to ensure that policy makers have the best available demographic data for planning. In 2003-04 the department provided online population projections up to 2018 for health institutional boards, health and community service boards, school districts and others. The department also released the brief report entitled *Demographic Change: Issues and Implications* on its web site.

Statistical Services

During the year, the department continued to develop and implement surveys designed to collect key data on labour supply and demand in the province. The Newfoundland and Labrador Survey of Employers is canvassing virtually all firms to collect labour demand data such as number of employees, wage rates, occupations and more. The Labour Activity Survey, which is an annual household survey, underwent continued refinements during the year. This survey provides unique information on the dynamics of the province's labour force, skills shortages and excess supplies and retirements from the labour force.

Internet Services

The department continued to make strides in increasing online information. During 2003-04 there was an average of 36,000 "hits" per month to various pages on the department's main web site. This figure does not include traffic to several individual sites operated by the Economics and Statistics Branch. The Pension Administration Division is currently expanding the Public Service Pensions Plan web site to include details of the Uniformed Services Pension Plan (USPP). The USPP web page is expected to be on-line by late 2004. During the last quarter of the 2003-04 fiscal year, the Tax Administration Division implemented electronic filing of provincial tax returns and payments for the majority of its tax programs.

Strategic Issues and Outcomes

Strategic issues are those fundamental policy choices or critical challenges that must be addressed by the department to achieve its vision

The Department of Finance has identified four key strategic issues which will be the focus of the department's activities over the next several years. Each issue is explained and the challenges and opportunities associated with each issue are discussed.

Strategic Issue 1:

How to increase federal transfer payments for social programs to an adequate level?

Federal transfers payments continue to be a significant part of the revenues for the province. All provinces and territories share the concern that federal transfers do not provide an adequate level of financial support for social programs. In the 2003 budget, the province estimated that $1.4 billion would be received in fiscal transfer payments. This represented approximately 36 per cent of total current and related provincial revenues of $3.9 billion. The Canada Health and Social Transfer (CHST) provides federal support for health, education and social welfare. The 2003 budget estimated the CHST to provide $398 million, against current account expenditures in these social program areas of over $2.6 billion, a federal contribution of only a 15 per cent share.

GOAL: ***To increase the amount of federal transfer payments for social programs, particularly health care.***

Health care costs nationally have risen steeply since the mid 1990s, outpacing provincial revenue growth. With its 1994-95 budget, the federal government began implementing a plan to drastically reduce transfer payments for social programs as part of its efforts to reduce the federal deficit. Essentially, this action downloaded a substantial part of the federal deficit onto provinces and territories, who are responsible for the delivery of health care. Despite the escalation in health care costs, social program transfers are only now returning to their 1994-95 level, even though the federal deficit was eliminated by 1997 and the federal government has generated consistent surpluses since that time. The persistent reduced level of federal funding support has had a major impact on the ability of all provinces and territories to deliver adequate health care. Securing a greater share of health care funding from the federal government is the aim of all provinces and territories.

The objective for all provinces and territories is to have CHST payments increased to a level that will represent 25 per cent of social program expenditures for health, education and social services.

Provincial-territorial Premiers and Finance ministers have become very active in pressing their provincial-territorial case with the federal government. Some success was achieved in early 2003, when a First Ministers meeting resulted in a new national Health Accord. However, while this is a step forward, all provinces and territories agree more needs to be done. By continually pressing the federal government about the need for more adequate health funding, and the funding needs of other social programs which also have not kept pace, provinces and territories hope to achieve more progress. This continues to be the key challenge in federal-provincial-territorial fiscal arrangements.

Strategic Issue 2:

How to maintain the fiscal integrity of the province?

Expenditure growth in recent years, particularly in the health sector, has outpaced revenue growth. The March 2004 budget estimated a revised budgetary cash deficit of $150 million for the fiscal year ended 31 March, 2004, increasing to a projected $325 million budgetary cash deficit for the following fiscal year. A special review commissioned in November 2003, the PricewaterhouseCoopers Report, concluded that budgets could not be balanced by revenue growth alone. It further projected that unless corrective measures were taken the annual budgetary cash deficit would continue to grow and would reach $710.8 million by 2007-08. The demand for increased borrowings to cover these budgetary deficits will put additional pressure on debt servicing costs. Deficits of this magnitude will be of serious concern to the financial community, who will expect a reasonable plan to address these budgetary deficits.

GOAL: ***To strengthen the province's fiscal integrity by moving toward balanced budgets.***

Government cannot provide essential services and operate effectively unless it can make significant strides toward balanced budgets. The capital market borrowing program for the year ended 31 March, 2004 amounted to $740 million, and is projected to increase to $766 million in 2004-05. While a significant part of these borrowings is necessary to refinance existing debt as it matures, the province also has agreed to make annual special payments of $163.5 million into the Pension Fund to help address the unfunded liabilities. In recent years, government has been able to contain debt servicing costs, despite pressures caused by new borrowings to finance deficits and the special payments to the Pension Fund. Declining interest rates have enabled the province to refinance maturing debt at lower rates, thereby creating budgetary savings to offset the cost of additional borrowings. In addition, a strengthening Canadian dollar has further reduced the debt servicing costs of those debenture issues payable in foreign currencies and these savings have been used to offset the cost of additional borrowings. To illustrate, in 2003-04 debt servicing costs of $545.2 million represented 13.3 per cent of the total Current Account expenditures; $544.0 million or 13.4 per cent is estimated for 2004-05.

On the other hand, during periods of sustained interest rate growth, debt servicing costs will rise and will put pressure on other government programs and on future budgets. The credit rating agencies have indicated their concern about the challenge facing the province in dealing with future fiscal imbalances now that the flexibility afforded by "one-time" revenues are no longer available. In their 2003 reports on the province, each of the credit rating agencies indicated that a commitment to achieving a balanced budgetary position will be an important rating consideration for the future.

Strategic Issue 3:

How to ensure the financial stability of the provincial pension plans?

Historically, government pension plans have been underfunded as contributions from plan members and their employers have not been sufficient to finance the cost of benefits. Also, public sector unions and pensioners have brought pressure on government to provide pension indexing provisions comparable to other public sector plans in Canada.

The Goal: ***To fully fund pension unfunded liabilities over a reasonable time within the province's fiscal capacity.***

In recent years, government and the public sector employees have made a concerted effort to address the unfunded pension liabilities by modifying benefits and increasing contributions. In addition, government is continuing to make special payments to the pension plans which in 2003-04 totalled $163.5 million. While these efforts have increased the financial support for these plans, the unfunded pensions liabilities continue to be of major concern as they as they have grown to $4.4 billion at 31 March 2004.

The main plan, the Public Service Pension Plan, which covers approximately 26,000 employees of government and its agencies had an unfunded liability of $1.9 billion at 31 March, 2004. However, members' contributions and those of their employers currently are in excess of the cost of benefits and these excess payments together with special annual payments of $60 million are projected to ensure its financial stability.

The other plans, including the Teachers' Pension Plan, have had benefits modified and their contributions increased to partly address the unfunded pensions liabilities. However, these changes and government's commitment to a stream of special payments, which amounted to $103.5 million in 2003-04, are not projected to finance the unfunded pension liabilities which totalled $2.5 billion at 31 March, 2004. Based on existing special payment commitments made by government, the assets in these plans are projected to be exhausted by 2013, at the latest.

In December 2003, as part of its overall review of the province's fiscal position, the PricewaterhouseCoopers Report concluded that further changes are required if the Teachers' Pension Plan is to survive. The Report also concluded that all participants in the pension plans have to contribute to the solution to make all plans more stable.

Strategic Issue 4:

How to meet the growing demand for business, economic, social and demographic statistics and analysis?

Increasingly policy makers and planners are demanding more detailed data and analysis specific to their needs. Data and other information may be requested along specific geographical lines (e.g., communities) or along industry lines (e.g., oil industry impact). In recent years the improved ability to handle and process large amounts of information has made such requests more attainable and this fact has increased the demand for better, more detailed and precise information for decision making purposes. In many cases, the data and information requirements are not readily available, and have to be collected and assembled into a user friendly format. These demands have brought greater pressure on the Economics and Statistics Branch, in particular from departments and groups outside the Department of Finance, by increasing the reliance on the department as the central statistical and economic agency of government.

The Goal: **To increase the information base and technological support within the Economics and Statistics Branch to meet the specific needs of government and other clients.**

The branch is working on a number of initiatives to achieve this goal. Policy or "issue specific" surveys such as the Survey of In and Out-Migrants, the Labour Activity Survey, and a range of other strategic data collection efforts are being administered to fill key information needs or gaps. Throughout 2003-04 planning was carried out for research partnerships between the department and other government departments on increasing the quantity and quality of available labour market information, including labour supply and demand statistics and "skills gaps" measurement. Considerable new information will be produced from this initiative in the coming year.

Efforts will continue to provide current economic and statistical information through the Branch's web sites. The Community Accounts and the GeoStats Geographic Information System (GIS) are providing sub-provincial data and analytical tools to meet new data and geographically based analytical requirements. The branch introduced population projections by health institutional boards, health and community service boards and school districts early in 2004.

Proactive measures are also being put in place to ensure that the Branch identifies information requirements and data gaps in anticipation of the needs of clients, and adjusts its activities accordingly. Surveys, monitoring of policy direction, and consultations with industry leaders and government officials, are some of the approaches used to identify emerging information requirements.

Contact Information

Fiscal Policy
Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-3166
Facsimile: (709) 729-2070

Tax Administration
3rd Floor, East Block
Confederation Building
P.O. Box 8720
St. John's, NL A1B 4K1
General Inquiries: (709) 729-6297 or
1-800-729-6297
Collection Inquiries: (709) 729-6297 or
1-877-729-1695
Facsimile: (709) 729-2856
E-mail: taxadmin@gov.nl.ca

Project Analysis
3rd Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-2776
Facsimile: (709) 729-3038

Debt Management
Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-2926
Facsimile: (709) 729-2095

Pensions
Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-3931
Facsimile: (709) 729-6790
E-mail: pensions@gov.nl.ca

Economic Research and Analysis
Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-3255
Facsimile: (709) 729-6944
E-mail: infoera@gov.nl.ca

Newfoundland and Labrador Statistics Agency
Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone (709) 729-2913
Facsimile: (709) 729-5149
E-mail: infostats@gov.nl.ca

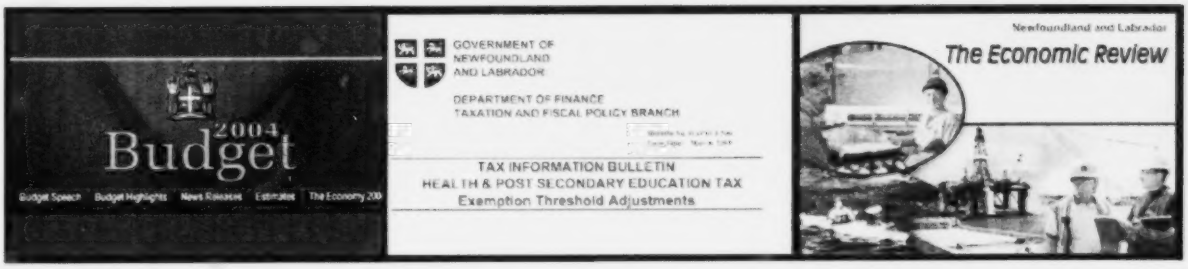
Tax Policy
Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-3166
Facsimile: (709) 729-2070
E-mail: taxpolicy@gov.nl.ca

Department Web Sites:

Main:	***www.gov.nl.ca/fin***
Economics:	***www.economics.gov.nl.ca***
Statistics:	***www.stats.gov.nl.ca***
Pensions:	***www.gov.nl.ca/fin/pensions***
Community Accounts:	***www.communityaccounts.ca***
GeoStats:	***www.geostats.ca***
Tax Administration:	***www.gov.nl.ca/fin/etax***

Department Publications

The department produces an array of publications and information bulletins



Financial

- Budget - Preparation of Speech and Pre-budget Consultations
- The Department of Finance Annual Report

Taxation

- Tax Information Bulletins
  - Sales Tax
  - Gasoline Tax
  - Tobacco Tax
  - Health and Post Secondary Education Tax
  - Insurance Companies Tax
  - Utilities and Cable Television Companies Tax
  - Mining and Mineral Rights Tax

Pensions

- Plan Members Guide to the Public Service Pension Plan
- Annual Report for the Province of Newfoundland Pooled Pension Fund
- Annual Report from the Government Money Purchase Pension Plan

Economic and Statistical

- The Economy
- The Economic Review
- Demographic Change: Newfoundland and Labrador, Issues and Implications
- Productivity and Productivity Growth: Newfoundland and Labrador
- Profiling the Manufacturing Sector in Newfoundland and Labrador
- Employment Insurance: Trends and Usage in Newfoundland and Labrador
- The Flashsheet (Labour Force and Consumer Price Index)

Annual Reports - Crown Agencies

- C.A. Pippy Park Commission
- Newfoundland and Labrador Liquor Corporation
- Newfoundland and Labrador Municipal Financing Corporation
- The Department of Finance Annual Activity Reports for Crown Corporations, Boards, Agencies and Commissions

Financial Statements

Enclosed is the Statement of Expenditure and Related Revenue (unaudited) for the Department of Finance for 2003-04

DEPARTMENT OF FINANCE

Unaudited Statement of Expenditure and Related Revenue *

FOR THE YEAR ENDED 31 MARCH 2004

	Actual	Estimates Amended	Estimates Original
	$	$	$
EXECUTIVE AND SUPPORT SERVICES			
MINISTER'S OFFICE			
Current			
1.1.01. MINISTER'S OFFICE			
01. Salaries	**106,555**	129,400	129,400
03. Transportation and Communication	**28,650**	44,200	46,200
04. Supplies	**4,785**	6,200	2,200
06. Purchased Services	**8,974**	15,600	15,600
Total: Minister's Office	**148,964**	195,400	193,400
TOTAL: MINISTER'S OFFICE	**148,964**	195,400	193,400
GENERAL ADNINISTRATION			
Current			
1.2.01. EXECUTIVE SUPPORT			
01. Salaries	**688,697**	702,500	548,500
02. Employee Benefits	**490**	500	500
03. Transportation and Communication	**40,298**	64,400	64,400
04. Supplies	**3,676**	3,900	2,600
06. Purchased Services	**4,809**	5,100	4,600
Total: Executive Support	**737,970**	776,400	620,600
1.2.02. ADMINISTRATIVE SUPPORT			
02. Employee Benefits	**9,837**	10,300	2,800
03. Transportation and Communication	**142,129**	153,500	176,000
04. Supplies	**25,791**	34,500	38,800
05. Professional Services	**3,803**	4,500	2,000
06. Purchased Services	**46,092**	52,900	37,900
07. Property, Furnishings and Equipment	**7,780**	8,500	5,500
	235,432	264,200	263,000
02. Revenue Provincial	**(71,179)**	(80,000)	(80,000)
Total: Administrative Support	**164,253**	184,200	183,000
TOTAL: GENERAL ADMINISTRATION	**902,223**	960,600	803,600
GENERAL GOVERNMENT			
Current			
1.3.01. GOVERNMENT PERSONNEL COSTS			
01. Salaries	**2,229**	1,812,000	46,256,300
02. Employee Benefits	**41,434,306**	41,659,200	43,766,100
	41,436,535	43,471,200	90,022,400
02. Revenue Provincial	**(158,578)**	(125,000)	(125,000)
Total: Government Personnel Costs	**41,277,957**	43,346,200	89,897,400
TOTAL: GENERAL GOVERNMENT	**41,277,957**	43,346,200	89,897,400
TOTAL EXECUTIVE AND SUPPORT SERVICES	**42,329,144**	44,502,200	90,894,400

* *Expenditure and revenue figures (cash based) included in this document are based on the Public Accounts.*

	Actual	Estimates Amended	Estimates Original
	$	$	$
FINANCIAL ADMINISTRATION			
FINANCIAL ADMINISTRATION			
Current			
2.1.01. PENSIONS ADMINISTRATION			
01. Salaries	1,568,699	1,580,000	1,586,700
02. Employee Benefits	3,462	4,200	3,000
03. Transportation and Communication	44,620	45,400	44,900
04. Supplies	21,856	22,000	10,000
05. Professional Services	142,668	143,000	150,000
06. Purchased Services	29,198	34,000	34,000
07. Property, Furnishings and Equipment	2,374	3,000	3,000
12. Information Technology	488,557	587,300	587,300
	2,301,434	2,418,900	2,418,900
02. Revenue Provincial	(2,078,198)	(2,418,900)	(2,418,900)
Total: Pensions Administration	223,236	0	0
2.1.02. DEBT MANAGEMENT			
01. Salaries	665,560	667,600	686,600
02. Employee Benefits	100	1,700	1,700
03. Transportation and Communication	13,143	16,600	16,600
04. Supplies	3,252	3,300	2,800
06. Purchased Services	856	1,400	1,400
12. Information Technology	15,000	23,700	23,700
	697,911	714,300	732,800
02. Revenue Provincial	(312,901)	(321,500)	(321,500)
Total: Debt Management	385,010	392,800	411,300
2.1.03. FINANCIAL ASSISTANCE			
10. Grants and Subsidies	400,000	400,000	400,000
02. Revenue Provincial	(34,180,783)	(32,800,000)	(32,800,000)
Total: Financial Assistance	(33,780,783)	(32,400,000)	(32,400,000)
2.1.04. SPECIAL ASSISTANCE			
09. Allowances and Assistance	265,728	846,000	1,000,000
Total: Special Assistance	265,728	846,000	1,000,000
TOTAL: FINANCIAL ADMINISTRATION	(32,906,809)	(31,161,200)	(30,988,700)

	Actual	Estimates Amended	Estimates Original
	$	$	$
FINANCIAL ADMINISTRATION (con't)			
TAXATION AND FISCAL POLICY			
Current			
2.2.01. TAX POLICY			
01. Salaries	457,834	468,800	468,800
02. Employee Benefits	1,145	1,200	500
03. Transportation and Communication	23,081	25,400	25,400
04. Supplies	4,392	5,100	1,800
05. Professional Services	0	5,000	9,000
06. Purchased Services	1,323	5,100	5,100
Total: Tax Policy	487,775	510,600	510,600
2.2.02. FISCAL POLICY			
01. Salaries	269,381	287,300	322,300
02. Employee Benefits	0	500	500
03. Transportation and Communication	29,381	35,400	35,400
04. Supplies	2,369	3,300	3,300
05. Professional Services	0	3,500	4,500
06. Purchased Services	3,883	3,900	2,900
Total: Fiscal Policy	305,014	333,900	368,900
2.2.03. PROJECT ANALYSIS			
01. Salaries	435,957	450,000	516,000
02. Employee Benefits	878	2,200	2,200
03. Transportation and Communication	4,548	27,600	27,600
04. Supplies	3,264	9,200	9,200
05. Professional Services	0	10,000	20,000
06. Purchased Services	180	2,000	2,000
07. Property, Furnishings and Equipment	0	1,600	1,600
Total: Project Analysis	444,827	502,600	578,600
2.2.04. TAX ADMINISTRATION			
01. Salaries	2,468,137	2,468,800	2,355,800
02. Employee Benefits	5,585	5,700	3,700
03. Transportation and Communication	122,865	143,700	191,200
04. Supplies	72,129	82,600	47,600
05. Professional Services	9,727	15,400	25,400
06. Purchased Services	37,323	40,600	27,600
10. Grants and Subsidies	3,000	10,000	10,000
12. Information Technology	376,848	491,000	491,000
	3,095,614	3,257,800	3,152,300
02. Revenue Provincial	(21,413)	0	0
Total: Tax Administration	3,074,201	3,257,800	3,152,300
TOTAL: TAXATION AND FISCAL POLICY	4,311,817	4,604,900	4,610,400

	Actual	Estimates Amended	Estimates Original
	$	$	$
FINANCIAL ADMINISTRATION (con't)			
ECONOMIC POLICY AND STATISTICS			
Current			
2.3.01. ECONOMICS AND STATISTICS			
01. Salaries	**1,237,114**	1,325,800	1,318,800
02. Employee Benefits	**4,669**	5,600	3,600
03. Transportation and Communication	**66,787**	105,700	111,700
04. Supplies	**30,970**	32,300	25,300
05. Professional Services	**168,899**	653,900	654,900
06. Purchased Services	**23,100**	60,400	60,400
07. Property, Furnishings and Equipment	**67,473**	68,000	58,000
12. Information Technology	**172,105**	551,400	551,400
	1,771,117	2,803,100	2,784,100
01. Revenue Federal	**(62,900)**	(1,305,000)	(1,305,000)
02. Revenue Provincial	**(647,915)**	(351,200)	(351,200)
Total: Economics and Statistics	**1,060,302**	1,146,900	1,127,900
TOTAL: ECONOMIC POLICY AND STATISTICS	**1,060,302**	1,146,900	1,127,900
TOTAL FINANCIAL ADMINISTRATION	**(27,534,690)**	(25,409,400)	(25,250,400)
TOTAL DEPARTMENT	**14,794,454**	19,092,800	65,644,000

UNAUDITED SUMMARY OF GROSS EXPENDITURES AND UNEXPENDED BALANCES

	$
Original estimates (net)	65,644,000
Add (subtract) transfers of estimates	(46,551,200)
Addback revenue estimates net of transfers	37,401,600
Original estimates of expenditure	56,494,400
Supplimentary supply	0
Total appropriation	56,494,400
Total net expenditure	14,794,454
Add revenue less transfers	37,533,867
Total Gross expenditure (budgetary non-statutory)	52,328,321
Unexpended balance of appropriation	4,166,079

Unaudited Summary of Cash Payments and Receipts

	Payments	Receipts	Net
	$	$	$
Current account	52,328,321	37,533,867	14,794,454
Capital account	0	0	0
	52,328,321	37,533,867	14,794,454

Expenditure and revenue figures (cash based) included in this document are based on the Public Accounts.